

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Pinecrest Medical Care Facility	County Menominee
Audit Date December 31, 2005	Opinion Date February 1, 2006	Date Accountant Report Submitted To State: February 17, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 750 Trade Centre Way, Suite 300		City Portage	State MI
ZIP 49002			
Accountant Signature 			

# **Pinecrest Medical Care Facility**

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**Combined Financial Report  
with Additional Information  
December 31, 2005**

# **Pinecrest Medical Care Facility**

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## Independent Auditor's Report

To the Department of Human Services Board  
Pinecrest Medical Care Facility

We have audited the accompanying combined balance sheet of Pinecrest Medical Care Facility (the "Facility") and affiliated entities (owned and operated jointly by Delta, Dickinson, and Menominee counties, Michigan) as of December 31, 2005 and 2004 and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Pinecrest Medical Care Facility at December 31, 2005 and 2004 and the combined results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

February 1, 2006

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# Pinecrest Medical Care Facility

## Combined Balance Sheet

	December 31, 2005	December 31, 2004
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 209,995	\$ 224,207
Resident accounts receivable (Note 3)	1,241,281	1,170,712
Other current assets	118,874	231,988
Total current assets	1,570,150	1,626,907
<b>Assets Limited as to Use</b> (Note 2)	4,287,015	7,752,309
<b>Property and Equipment - Net</b> (Note 4)	12,965,225	9,873,886
Total assets	<b>\$ 18,822,390</b>	<b>\$ 19,253,102</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 155,076	\$ 169,150
Construction payable	194,744	592,169
Accrued liabilities and other:		
Accrued compensation and related liabilities	432,157	403,672
Accrued compensated absences	482,621	488,217
Other accrued liabilities	56,340	93,502
Total current liabilities	1,320,938	1,746,710
<b>Net Assets</b>		
Invested in capital assets	12,965,225	9,873,886
Unrestricted	4,536,227	7,632,506
Total net assets	17,501,452	17,506,392
Total liabilities and net assets	<b>\$ 18,822,390</b>	<b>\$ 19,253,102</b>

# Pinecrest Medical Care Facility

## Combined Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
<b>Operating Revenue</b>		
Net service revenue	\$ 11,272,761	\$ 11,043,507
Other operating revenue	86,326	67,314
Proportionate share reimbursement	40,329	183,601
Total operating revenue	11,399,416	11,294,422
<b>Operating Expenses</b>		
Salaries	7,274,820	7,144,020
Other expenses	4,297,735	4,175,109
Total operating expenses	11,572,555	11,319,129
<b>Operating Loss</b>	(173,139)	(24,707)
<b>Other Income</b>	168,199	192,199
<b>(Decrease) Increase in Net Assets</b>	(4,940)	167,492
<b>Net Assets - Beginning of year</b>	17,506,392	17,338,900
<b>Net Assets - End of year</b>	<b>\$ 17,501,452</b>	<b>\$ 17,506,392</b>

# Pinecrest Medical Care Facility

## Combined Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Cash Flows from Operating Activities</b>		
Cash received from residents and third-party payors	\$ 11,202,192	\$ 10,935,133
Other operating receipts	86,326	67,314
Cash received from proportionate share reimbursement program	40,329	80,631
Cash paid to employees and suppliers	(11,320,673)	(10,659,775)
Net cash provided by operating activities	8,174	423,303
<b>Cash Flows from Noncapital Financing Activities -</b>		
Contributions received	19,953	16,589
<b>Cash Flows from Investing Activities</b>		
Rental income	46,800	46,800
Interest received	101,446	128,810
Proceeds from sale of investments in assets limited as to use	5,305,634	3,821,625
Purchase of investments in assets limited as to use	(2,084,744)	(1,247,681)
Net cash provided by investing activities	3,369,136	2,749,554
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of property and equipment	(3,655,879)	(3,181,246)
Repayment of line of credit	-	(29,575)
Net cash used in capital and related financing activities	(3,655,879)	(3,210,821)
<b>Net Decrease in Cash and Cash Equivalents</b>	(258,616)	(21,375)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,862,893	1,884,268
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,604,277</b>	<b>\$ 1,862,893</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Current assets	\$ 209,995	\$ 224,207
Assets limited as to use	1,394,282	1,638,686
Total cash	<b>\$ 1,604,277</b>	<b>\$ 1,862,893</b>

# Pinecrest Medical Care Facility

## Combined Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	(173,139)	(24,707)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	759,284	622,250
Bad debts	29,294	12,547
Change in assets and liabilities:		
Resident accounts receivable	(99,863)	(116,413)
Decrease in other current assets	113,114	4,132
Increase (decrease) in accounts payable	(14,074)	30,189
Decrease in other accrued expenses	(606,442)	(1,725)
Decrease in deferred revenue	-	(102,970)
Net cash provided by operating activities	<u>\$ 8,174</u>	<u>\$ 423,303</u>

At December 31, 2005 and 2004, property and equipment additions totaling \$194,744 and \$592,169, respectively, were included in a construction payable.



# Pinecrest Medical Care Facility

## Notes to Combined Financial Statements December 31, 2005 and 2004

### Note 1 - Nature of Business and Significant Accounting Policies

Pinecrest Medical Care Facility (the "Facility") is a 174-bed, long-term medical care facility owned and operated jointly by Delta, Dickinson, and Menominee counties. The Facility is governed by a nine-member Department of Human Services (DHS) board. This board is made up of six members appointed by participating counties (two each) and three members appointed by the governor of Michigan (one to each county). This board also oversees the operations of Whispering Pines and Powers Activity Center. Whispering Pines operates four residential care facilities for developmentally disabled adults. Whispering Pines also has a contract with an outside provider to provide community-supported living arrangement programs that provide housekeeping, personal care services, and transportation to developmentally disabled adults and senior citizens living on their own. Powers Activity Center is an outpatient mental health facility. As required by accounting principles generally accepted in the United States of America, these combined financial statements present Pinecrest Medical Care Facility and its component units. The individual component units discussed above are included because of the significance of their operational or financial relationships with Pinecrest Medical Care Facility.

**Basis for Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Facility's financial activities.

**Enterprise Fund Accounting** - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Cash Equivalents** - The Facility considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Investments** - Investments are recorded at fair value.

**Assets Limited as to Use** - Assets limited as to use primarily include assets set aside by the DHS board for future capital improvements, funding of combined time off, and managed care contracting. The board retains control and may, at its discretion, subsequently use such assets for other purposes.

# **Pinecrest Medical Care Facility**

## **Notes to Combined Financial Statements December 31, 2005 and 2004**

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Property and Equipment** - All property and equipment amounts are recorded at historical cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is charged as an expense against the operations on a straight-line basis.

**Compensated Absences** - Employees earn benefit days under the Facility's combined time-off policy. The value of the combined time off is charged to operations when earned. Unused benefits are recorded as a current liability in the combined financial statements.

**Net Patient Service Revenue** - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Approximately 85 percent of the revenue from patient services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party rates for services and amounts are reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

**Medicare** - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

**Medicaid** - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a cost reimbursement methodology.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Proportionate Share Reimbursement Program** - During the years ended December 31, 2005 and 2004, the Facility participated in this program sponsored by the State of Michigan.

# **Pinecrest Medical Care Facility**

## **Notes to Combined Financial Statements December 31, 2005 and 2004**

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

In 2005, two transactions were completed. They were recorded in revenue in relation to the state fiscal year ended September 30, 2005.

In 2004, one transaction was completed. The transaction took place in October and was for the state fiscal year ended September 30, 2004 and, therefore, was recognized one quarter in revenue and three quarters in deferred revenue.

**Medicaid Reimbursement** - Prior to December 31, 2005, legislation was signed by the governor of Michigan which is expected to impact Medicaid payments to Class 3 skilled nursing providers; however, approval of a state plan amendment from the Center of Medicare and Medicaid Services (CMS) is required to allow implementation. The ultimate effects of the change, if approved, will eliminate the executive order related to the reduction of the Facility's Medicaid variable rate by 5.85 percent, retroactive to May 1, 2005. In addition, it would allow for the county facilities to participate in the Medicaid Quality Assurance Supplementation (QAS) program, retroactively effective October 1, 2005. The QAS reimbursement to the Facility will be based on 21.76 percent of the lesser of the Facility's variable rate base or the Class I variable cost limit for every eligible Medicaid day. The tax to be paid by the Facility related to this program will be based on the actual non-Medicare days (using the base year cost report days) at an estimated rate of approximately \$16.00 per day.

**Charity Care** - The Facility provides care to residents who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Facility does not pursue collection of amounts determined to qualify as charity care, they are not reported as net resident service revenue. Amounts written off to charity care totaled approximately \$11,000 and \$13,000 for the years ended December 31, 2005 and 2004, respectively.

**Operating Revenues and Expenses** - The Facility's combined statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Facility's principal activity. Nonexchange revenues, grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services other than financing costs.

# **Pinecrest Medical Care Facility**

## **Notes to Combined Financial Statements December 31, 2005 and 2004**

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility has designated three banks and one credit union for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Facility's deposits and investment policies are in accordance with statutory authority.

The Facility's cash and assets limited as to use, including investments that are subject to several types of risk, are examined in more detail below.

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank or credit union failure, the Facility's deposits may not be returned to it. The Facility does not have a deposit policy for custodial credit risk. At year end, the Facility had \$950,717 of bank and credit union deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Facility believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance and National Credit Union Share insurance, it is impractical to insure all deposits. As a result, the Facility evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Facility's investment policy does not restrict investment maturities.

# Pinecrest Medical Care Facility

## Notes to Combined Financial Statements December 31, 2005 and 2004

### Note 2 - Deposits and Investments (Continued)

As of December 31, 2005, the Facility had the following cash and assets limited as to use maturities:

	Fair Market Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Cash and cash equivalents	\$ 873,522	\$ 873,522	\$ -	\$ -	\$ -
Certificates of deposit	676,332	92,064	584,268	-	-
Money market funds	54,423	54,423	-	-	-
Total cash and cash equivalents	1,604,277				
Implied government securities	546,194	-	451,162	95,032	-
Government securities	2,227,097	551,127	865,029	621,910	189,031
Mutual funds	86,782	86,782	-	-	-
Total	\$ 4,464,350	\$ 1,657,918	\$ 1,900,459	\$ 716,942	\$ 189,031

**Component Units** - The component units have designated one credit union for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs but not the remainder of state statutory authority, as listed above. The component units' deposits and investment policies are in accordance with statutory authority.

The component units' cash and assets limited as to use are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. The component unit does not have a deposit policy for custodial credit risk. At year end, the component units had \$576,550 of credit union deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The component units believe that due to the dollar amounts of cash deposits and the limits of National Credit Union Share insurance, it is impractical to insure all deposits. As a result, the component units evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Pinecrest Medical Care Facility

## Notes to Combined Financial Statements December 31, 2005 and 2004

### Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2005	2004
Resident accounts receivable	\$ 1,296,281	\$ 985,576
Less allowance for:		
Uncollectible accounts	(55,000)	(55,000)
Medicaid interim payment advances	-	240,136
Net resident accounts receivable	<u>\$ 1,241,281</u>	<u>\$ 1,170,712</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2005	2004
Medicare	17	12
Medicaid	58	67
Other payors	25	21
Total	<u>100</u>	<u>100</u>

### Note 4 - Property and Equipment

The cost of property and equipment and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land and land improvements	\$ 22,211	\$ -	\$ -	\$ -	\$ 22,211	NA
Building	12,081,272	169,299	7,276,876	-	19,527,447	10-40
Equipment	2,428,594	259,538	-	(401)	2,687,731	4-20
Construction in progress	3,982,971	3,421,786	(7,276,876)	-	127,881	
Total	18,515,048	3,850,623	-	(401)	22,365,270	
Less accumulated depreciation:						
Building	6,960,256	605,254	-	-	7,565,510	
Equipment	1,680,906	154,030	-	(401)	1,834,535	
Total	8,641,162	759,284	-	(401)	9,400,045	
Net carrying amount	<u>\$ 9,873,886</u>	<u>\$ 3,091,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,965,225</u>	

# Pinecrest Medical Care Facility

## Notes to Combined Financial Statements December 31, 2005 and 2004

### Note 4 - Property and Equipment (Continued)

The cost of capital assets and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life - Years
Land and land improvements	\$ 22,211	\$ -	\$ -	\$ -	\$ 22,211	N/A
Building and improvements	12,066,019	15,253	-	-	12,081,272	10-40
Equipment	2,317,870	111,174	-	(450)	2,428,594	4-20
Construction in progress	475,702	3,507,269	-	-	3,982,971	
Total	14,881,802	3,633,696	-	(450)	18,515,048	
Less accumulated depreciation:						
Building and improvements	6,477,366	482,890	-	-	6,960,256	
Equipment	1,541,996	139,360	-	(450)	1,680,906	
Total	8,019,362	622,250	-	(450)	8,641,162	
Net carrying amount	\$ 6,862,440	\$ 3,011,446	\$ -	\$ -	\$ 9,873,886	

### Note 5 - Related Party Transactions

**Maintenance of Effort** - Maintenance of Effort (M.O.E.) payments are county obligations to the State of Michigan. Every month the state bills the county, at a per diem rate, for each Medicaid patient day at the medical care facility. All obligations are paid by the county except for amounts relating to a 14-bed addition, which are the responsibility of the Facility.

### Note 6 - Defined Contribution Pension Plan

The Facility has two defined contribution plans, one for union employees and one for nonunion employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Facility contributes 2 percent of employees' gross earnings for participants of the bargaining units under a collective bargaining agreement and 9 percent of gross earnings for participants in the nonunion plan. The Facility's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 10 years of service. In accordance with these requirements, the Facility contributed approximately \$206,000 and \$190,000 during 2005 and 2004, respectively. There were no employee contributions to the plans in either year.

# Pinecrest Medical Care Facility

## Notes to Combined Financial Statements December 31, 2005 and 2004

### Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions, as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims and employee medical benefit claims. The Facility is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known or outstanding or pending claims at December 31, 2005 and 2004.

The Facility records workers' compensation claims as they are processed by the claims administrator. The Facility has also purchased stop-loss insurance for claims that exceed \$275,000. Changes in the estimated liability for the years ended December 31, 2005 and 2004 were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 83,700	\$ 74,622
Estimated claims incurred, including changes in estimates	36,124	162,270
Claim payments	(73,555)	(153,192)
Estimated liability - End of year	<u>\$ 46,269</u>	<u>\$ 83,700</u>



## **Additional Information**

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To the Board of Directors  
Pinecrest Medical Care Facility

We have audited the combined financial statements of Pinecrest Medical Care Facility as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedules, as outlined in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Plante & Moran, PLLC*

February 1, 2006

# Pinecrest Medical Care Facility

## Combining Balance Sheet December 31, 2005

	Pinecrest MCF	Whispering Pines	Powers Activity Center	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 150,498	\$ 12,093	\$ 47,404	\$ 209,995
Residents accounts receivable	1,061,649	172,863	6,769	1,241,281
Other current assets	90,890	25,077	2,907	118,874
Total current assets	1,303,037	210,033	57,080	1,570,150
<b>Assets Limited as to Use</b>	3,628,975	270,063	387,977	4,287,015
<b>Property and Equipment</b>	12,545,851	318,248	101,126	12,965,225
Total assets	<u>\$ 17,477,863</u>	<u>\$ 798,344</u>	<u>\$ 546,183</u>	<u>\$ 18,822,390</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Trade accounts payable	\$ 105,958	\$ 34,922	\$ 14,196	\$ 155,076
Construction payable	194,744	-	-	194,744
Accrued liabilities and other:				
Accrued compensation and related liabilities	399,107	29,216	3,834	432,157
Accrued compensated absences	450,577	32,044	-	482,621
Other accrued liabilities	56,340	-	-	56,340
Total current liabilities	1,206,726	96,182	18,030	1,320,938
<b>Net Assets</b>				
Invested in capital assets	12,545,851	318,248	101,126	12,965,225
Unrestricted	3,725,286	383,914	427,027	4,536,227
Total net assets	16,271,137	702,162	528,153	17,501,452
Total liabilities and net assets	<u>\$ 17,477,863</u>	<u>\$ 798,344</u>	<u>\$ 546,183</u>	<u>\$ 18,822,390</u>

# Pinecrest Medical Care Facility

## Combining Statement of Revenue, Expenses, and Changes in Net Assets Years Ended December 31, 2005

	Pinecrest MCF	Whispering Pines	Powers Activity Center	Eliminations	Totals
<b>Operating Revenue</b>					
Net service revenue	\$ 9,398,788	\$ 1,659,493	\$ 214,480	\$ -	\$ 11,272,761
Other operating revenue	86,326	-	-	-	86,326
Proportionate share reimbursement	40,329	-	-	-	40,329
Total operating revenue	9,525,443	1,659,493	214,480	-	11,399,416
<b>Operating Expenses</b>					
Salaries	5,967,970	1,185,740	121,110	-	7,274,820
Other expenses	3,799,026	443,845	54,864	-	4,297,735
Total operating expenses	9,766,996	1,629,585	175,974	-	11,572,555
<b>Operating Income</b>	(241,553)	29,908	38,506	-	(173,139)
<b>Other Income</b>	151,494	6,047	10,658	-	168,199
<b>Increase (Decrease) in Net Assets</b>	(90,059)	35,955	49,164	-	(4,940)
<b>Net Assets - Beginning of year</b>	16,361,196	666,207	478,989	-	17,506,392
<b>Net Assets - End of year</b>	<u>\$ 16,271,137</u>	<u>\$ 702,162</u>	<u>\$ 528,153</u>	<u>\$ -</u>	<u>\$ 17,501,452</u>

# Pinecrest Medical Care Facility

## Combined Schedule of Net Service Revenue

	Year Ended December 31	
	2005	2004
Skilled nursing services:		
Daily room revenue:		
Medicaid	\$ 8,127,734	\$ 7,933,163
Medicare	733,305	546,970
Private pay and other	754,325	731,532
Total daily room revenue:	9,615,364	9,211,665
Ancillary revenue:		
Pharmacy	155,214	114,209
Therapy services	1,016,255	691,423
Other ancillary services	136,552	82,373
Total ancillary revenue	1,308,021	888,005
Skilled nursing services revenue	10,923,385	10,099,670
Revenue deductions:		
Provision for contractual discounts	(1,495,303)	(837,332)
Bad debt expense	(29,294)	(12,547)
Total revenue deductions:	(1,524,597)	(849,879)
Whispering Pines service revenue	1,659,493	1,597,208
Powers Activity Center service revenue	214,480	196,508
<b>Net Service Revenue</b>	<b>\$ 11,272,761</b>	<b>\$ 11,043,507</b>

# Pinecrest Medical Care Facility

## Combined Schedule of Operating Expenses

	Year Ended December 31			
	2005			2004
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,501,825	\$ 1,501,825	\$ 1,636,029
Administration	449,975	382,808	832,783	773,933
Plant operations	284,672	61,047	345,719	329,120
Utilities	-	312,974	312,974	275,151
Laundry	178,756	36,067	214,823	221,983
Housekeeping	258,436	31,994	290,430	305,750
Dietary	533,448	365,390	898,838	899,515
Medical director	-	60,000	60,000	62,632
Diversional therapy	125,945	2,571	128,516	137,322
Other ancillary services	-	38,123	38,123	25,736
Therapy services	348,955	16,935	365,890	281,927
Pharmacy	-	156,385	156,385	107,410
Nursing	3,787,783	299,318	4,087,101	4,189,506
Adult day care - PAC	121,110	32,005	153,115	137,204
Whispering Pines	1,185,740	241,009	1,426,749	1,313,661
Depreciation and amortization	-	759,284	759,284	622,250
2005 totals	<u>\$ 7,274,820</u>	<u>\$ 4,297,735</u>	<u>\$ 11,572,555</u>	
2004 totals	<u>\$ 7,144,020</u>	<u>\$ 4,175,109</u>		<u>\$ 11,319,129</u>